



# External Audit Report

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Audit of North Central Texas Council of  
Governments Metropolitan Planning  
Organization

TxDOT Compliance Division

## **Objectives and Scope**

To determine whether the North Central Texas Council of Governments (NCTCOG) Metropolitan Planning Organization (MPO) has implemented necessary financial controls to ensure appropriate grant funding management and to determine whether payment requests are supported by sufficient documentation and are allowable per applicable federal requirements and TxDOT agreements.

The scope of this audit included current processes and procedures implemented by NCTCOG and the MPO to manage TxDOT funds, and requests for reimbursements submitted to TxDOT during NCTCOG's fiscal years 2017 and 2018 (October 1, 2016 through September 30, 2018).

## **Overall Conclusion**

NCTCOG reimbursements are supported by sufficient documentation and allowable per applicable federal requirements and TxDOT agreements. Expenditures tested were incurred during the applicable agreement period; however, 10 items tested were submitted for reimbursement more than 90 days after the costs were incurred.

Overall, NCTCOG has implemented necessary financial controls to manage TxDOT grant funding. For example, NCTCOG's financial management system ensures separation of accounts between the COG and MPO, and accounts identify federal awards received and expended and the associated federal programs. NCTCOG's procedures include federal requirements related to procurement, payments, and determination of cost allowability. Procurement procedures have been approved by TxDOT, and standard contract and subrecipient agreement templates include required 2 CFR 200 information.

We identified opportunities for NCTCOG to improve internal controls and processes surrounding Regional Toll Revenue (RTR) projects, subrecipient monitoring, reimbursements, cost allocations, procurement suspension and debarment verification, and required training.

NCTCOG MPO Management's responses and action plans are included in Appendix II beginning on page 9 of this report.

## **Background**

Urban areas in the United States with populations greater than 50,000 residents are represented by an MPO, which has primary responsibility to carry out the area's transportation planning process and establish transportation priorities.

Governor Dolph Briscoe designated NCTCOG as the MPO for the Dallas-Fort Worth (DFW) metropolitan area in 1974, and Governor William P. Clements, Jr. designated NCTCOG as

the MPO for the DFW urbanized area in 1988. NCTCOG's Transportation Department and the Regional Transportation Council (RTC) serve as the MPO staff and policy board, respectively. The RTC is comprised of 44 members representing cities, counties, TxDOT, and

other transportation interests in the region. The RTC is responsible for policy guidance and overall coordination of the transportation planning activities within the region. The NCTCOG Executive Board provides support for the MPO's fiscal and budgetary policies and actions. The Executive Board is composed of locally elected officials.

During NCTCOG's 2017 and 2018 fiscal years, TxDOT's Dallas District (DAL), Fort Worth District (FTW), and Transportation Planning & Programming Division (TPP) reimbursed \$46,233,959 on 64 projects. During this period, TxDOT also advanced \$8,818,360 for nine RTR projects. Projects primarily focused on transportation planning, congestion mitigation, and surface transportation programs.

The RTR program is a unique funding source for NCTCOG and the local governments within its boundaries. The program is funded by an upfront comprehensive development agreement payment and excess toll revenues generated in the region. RTR funds support transportation projects in the region. In 2006, the Texas Transportation Commission approved a memorandum of understanding with the RTC that requires RTC-selected projects to be financed using RTR funds upon concurrence from the Commission. Projects funded through RTR are either on-system, which are generally built by TxDOT, or off-system, which are implemented by local entities through agreements with TxDOT.

## **Results**

### **Regional Toll Revenue**

NCTCOG does not have standardized or documented procedures for the accounting of RTR expenditures, earned interest, and transfers. NCTCOG explained they perform periodic reconciliations of RTR funding, but documentation of the reconciliations was not provided. Additionally, supporting documentation for interest allocations and expenditure transfers has inconsistent amounts.

RTR funding is advanced to subrecipients, and Advance Funding Agreements (AFAs) require funds be deposited in an interest-bearing account. Unused funds, including interest, must be returned to the RTR program within 30 days of project completion. We identified one project that was fully-expended prior to fiscal year 2018; however, the closeout process has not been performed, and approximately \$2,300 in earned interest has not been returned to TxDOT.

NCTCOG maintains a single interest-bearing account for all RTR projects. An investment report is used to track daily interest earned and weekly project expenses. Interest is

allocated across active projects based on a projects' prior month's ending balance. NCTCOG pays RTR project expenditures from its operating account and periodically transfers funds from the RTR account to reimburse operating funds.

Auditors reviewed the September 2018 transfer and interest allocation spreadsheet for accuracy and supporting documentation. NCTCOG indicated transfers are performed monthly; however, the September 2018 transfer included costs posted in July, August, and September 2018. The September 2018 transfer was \$400,868, but the investment report and a detail of transactions from NCTCOG's accounting system showed \$400,473 in eligible expenses. The interest allocation spreadsheet shows expenses of \$501,733 during the transfer period covered. Additionally, timing delays between incurring expenses and reimbursing the operating account results in additional interest earnings. The transfer included \$375 in interest moved to the operating account; however, RTR agreements require earned interest be returned to the RTR program.

Due to the discrepancies in amounts detailed above, auditors also compared the expenditures and account balances detailed on the investment report and interest allocation spreadsheet for the entire fiscal year. Discrepancies were identified in the totals for each month and the aggregate fiscal year. NCTCOG did not provide reconciliation documentation to explain the differences. Accurate expenditure and project balance information is necessary to ensure correct interest allocation and return of unexpended project funds. Additionally, RTR agreements require recipients to maintain complete and accurate records sufficient to show funds were used in accordance with the agreement.

*Recommendation: NCTCOG MPO should implement consistent internal processes for the administration of RTR funds in relation to interest allocations, expenditures, accounting documentation, reconciliations, bank transfers, and project closeout. NCTCOG should reimburse TxDOT for all unused project funding and earned interest.*

#### Subrecipient Monitoring

Auditors reviewed subrecipient monitoring activities on four NCTCOG subrecipients for compliance with internal procedures and federal requirements. NCTCOG completed risk assessments for all four subrecipients, which included questionnaires, review of single audits and financial information, meetings between various NCTCOG personnel, and executive board approval. NCTCOG MPO should ensure subrecipient monitoring is conducted in compliance with federal and state requirements. Procedures should be updated to require annual reviews of subrecipient Single Audit Reports, as applicable and consistent with federal regulations. and verification of risk assessments prior to entering agreements.

Specifically, NCTCOG did not complete annual risk assessments for two subrecipients tested as required by NCTCOG Subrecipient Oversight Program procedures. NCTCOG completed initial risk assessments for all four subrecipients tested, however, NCTCOG did not complete those risk assessments before seeking executive board approval to enter into agreements, as required by NCTCOG procedures. For one subrecipient, NCTCOG executed the agreement in September 2015 but did not complete the subrecipient risk assessment until April 2016. 2 CFR 200.331(b) requires pass-through entities evaluate the subrecipient's risk of noncompliance with federal statutes and subaward terms and conditions prior to making the award.

For three of the four subrecipients tested, NCTCOG did not perform monitoring activities, such as site visits, that were recommended during the risk assessment. NCTCOG did not document decisions and supporting rationale for forgoing suggested monitoring activities for those subrecipients as required by internal procedures.

*Recommendation: NCTCOG MPO should ensure subrecipient monitoring is conducted in compliance with federal requirements and internal procedures. Procedures should be updated to require annual reviews of subrecipient Single Audit Reports and verification of risk assessments prior to entering agreements.*

### Expenditures

Auditors tested 65 reimbursed cost items, totaling \$4,204,366, for sufficient documentation and compliance with federal and state requirements and applicable agreements. Costs were sampled from vouchers representing 12 projects totaling \$12,406,337. Selected vouchers represent 23% of the \$55,058,069 expenditures during the scope period.

Expenditures tested were allowable and supported by sufficient documentation. However, 10 items, totaling \$69,833 and 1.6% of reimbursed cost items reviewed, were submitted for reimbursement more than 90 days after costs were incurred. Advance Funding Agreements (AFA) between TxDOT and NCTCOG require reimbursement requests be submitted no later than 90 days after costs are incurred.

*Recommendation: NCTCOG should implement procedures to ensure costs are submitted for reimbursement within required time periods.*

### Allocations

The NCTCOG cost allocation plan does not include adequate detail to support billed service allocation methodologies. For example, NCTCOG allocates rent and facilities charges to projects based on total office space of 138,900 square feet, exceeding 138,206 square feet listed in the fiscal year 2016 and 2017 plans. Additional 694 square feet represents 0.5% of total office space. Of the 138,900 square feet, 45,375 square feet were

designated to the MPO and used by NCTCOG to calculate charges incurred. Research and Information Services (RIS) Department staffing and non-labor costs are neither defined in the NCTCOG plan nor the interdepartmental agreement between the MPO and the RIS Department. RIS demographic data and forecasting expenses are allocated to the MPO at a rate of 85.56%. Lastly, Network Services and Geographic Information Systems (GIS) expenses are allocated to the MPO and submitted to TxDOT for reimbursement based upon budgeted figures. Additionally, reconciliations provided by NCTCOG did not provide adequate detail to identify the proportionate amount of costs attributed to the MPO.

2 CFR 200, Appendix V requires that allocated costs be included in the plan, and the governmental entity is required to compare the expenses for each allocation activity to the actual allowable costs of the service at least annually and adjust accordingly for the differences.

*Recommendation: NCTCOG should update its cost allocation plan to ensure allocations are properly defined, based on the most recent information, and reconciled to actual costs.*

#### Procurement

NCTCOG did not always perform timely suspension and debarment verifications to ensure it was not conducting business with entities that are debarred, suspended, or otherwise ineligible for participation in federal assistance programs as required by 2 CFR 200.213 and NCTCOG procurement procedures.

Auditors reviewed 11 NCTCOG procurements, totaling \$2,343,471 for compliance with federal, state and TxDOT agreement requirements. For two of 11 procurements, suspension and debarment verifications were completed after the requisition or contract dates. The verification for a \$64,000 advertising expense was completed on March 26, 2019, significantly after the purchase requisition date on November 22, 2017. The verification for a \$240,000 competitively-bid engineering study was completed on March 30, 2018; the related contract was executed on March 9, 2018, and the notice to proceed was issued on March 12, 2018. Neither entity was debarred nor suspended at the time of verification.

*Recommendation: NCTCOG MPO should update procedures to ensure suspension and debarment verifications are performed prior to proceeding with procurements per federal requirements and internal policies. NCTCOG management should enforce this requirement and only approve procurements with documented verifications.*

#### Training

Key project personnel, as identified by NCTCOG, did not complete required TxDOT Local Government Project (LGP) training for four of six projects reviewed. The key individual for the

remaining two projects has not retaken the training since November 2013. All personnel who took the training on or before June 30, 2016, had until July 1, 2019 to re-take the class to remain qualified. Per TxDOT's LGP Policy Manual, local governments must assign an individual qualified in this training to each project funded through an AFA. Per the AFAs between TxDOT and NCTCOG, TxDOT may deny reimbursement if the local government has not designated a qualified individual to oversee the applicable project. The course provides training related to TxDOT contract terms, state and federal regulations, and the project development process. Beginning on July 1, 2016, key project personnel were also required to retake the training at least once every three years.

*Recommendation: NCTCOG MPO should ensure all key project personnel assigned to TxDOT projects complete the required LGP training course prior to federal spending obligation on a project. Key personnel should retake training every three years.*

## Appendix I

### Project Information

This audit was conducted for the Transportation Planning & Programming Division (TPP), Dallas District (DAL), Fort Worth District (FTW), TxDOT Administration, and the Chief Audit and Compliance Officer. The audit was included in the fiscal year 2019 Compliance Division External Audit work plan and performed by Naima Hafeez (Engagement Lead), Gail Ates, and Tasha Foote. Engagement fieldwork was conducted from January 2019 through June 2019.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions on our audit objectives.

### Methodology

- Gained an understanding of NCTCOG operating structure.
- Interviewed key TPP, DAL, and FTW personnel.
- Interviewed key NCTCOG personnel in the Transportation, Accounting and Reporting, and Risk and Compliance Departments.
- Reviewed the NCTCOG financial management system.
- Reviewed NCTCOG Accounting Policies and Procedures Manual.
- Reviewed NCTCOG's procurement procedures.
- Reviewed NCTCOG's standard contract and subrecipient agreement templates.
- Tested expenditures for sufficient documentation and allowability.
- Reviewed a sample of procurements for compliance applicable requirements.
- Evaluated subrecipient monitoring processes compliance with federal requirements.
- Reviewed the NCTCOG indirect cost rate and cost allocation plans.
- Verified key project personnel attended TxDOT's Local Government Projects training.
- Reviewed NCTCOG's internal processes for RTR administration.

### Criteria

- Title 2 Code of Federal Regulations Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
- Standards for Internal Control in the Federal Government (Green Book).
- Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework.
- Funding agreements and amendments between TxDOT and the MPO.
- Local Government Projects Policy Manual.
- NCTCOG Policies and Procedures.



## Appendix II



North Central Texas Council Of Governments

August 13, 2019

Mr. Patrick McKinney  
External Audit & Advisory Services Section Director  
Compliance Division  
Texas Department of Transportation  
125 East 11<sup>th</sup> Street  
Austin, Texas 78701-2483

Dear Mr. McKinney:

Thank you for providing the opportunity to review and comment on the draft External Audit Report for the North Central Texas Council of Governments (NCTCOG) Metropolitan Planning Organization (MPO). On behalf of the NCTCOG MPO, I wish to convey appreciation for the effort that your staff made to learn about the MPO and our procedures and initiatives. I believe that this understanding enabled thoughtful judgement and useful recommendations to help the MPO continue to advance administrative improvements.

The comments below are provided in response to each recommendation included in the draft external Audit Report (attached for reference).

Regional Toll Revenue – NCTCOG will implement improvements to the accounting procedures for Regional Toll Revenue (RTR) funds. Documentation of procedures and close-out of completed RTR projects will be finalized by September 30, 2019.

Subrecipient Monitoring – NCTCOG will ensure subrecipient monitoring is conducted in compliance with federal and state requirements and applicable agreements. Procedures will be updated to require annual reviews of subrecipient Single Audit Reports, as applicable and consistent with federal regulations. NCTCOG will ensure verification of risk assessments prior to entering agreements. Updated procedure documentation will be provided to TxDOT by September 30, 2019.

Expenditures – Procedures supporting the reimbursement request process are currently in place. NCTCOG acknowledges that additional improvements can be made for timely submittal of reimbursement requests and staff will continue to work on addressing situations causing submittal delays.

Allocations – NCTCOG will update the Cost Allocation Plan for FY2020, to be completed by September 30, 2019. NCTCOG will also review Fiscal Year end accounting processes to ensure appropriate reconciliation is completed for allocated costs.

Procurement – MPO procurement procedures already include steps for verification of suspension and debarment. Staff will continue to work on improving adherence and enforcement of these processes.

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August 13, 2019

Training – NCTCOG supports efforts to engage MPO staff for training and better understanding of TxDOT processes. NCTCOG requests TxDOT to tailor the training to better meet the specific responsibilities and projects implemented by the MPO.

Thank you again for providing the opportunity to review and comment on the draft report. Your staff conducted a comprehensive review and coordinated with NCTCOG staff in a cooperative manner, consistent with the great partnership we have established with TxDOT. I appreciate the efforts to compile these recommendations to help us improve our processes. Please contact me at (817) 695-9241 or Dawn Dalrymple, Program Manager, at (817) 608-2319 for further discussion of any of the above items if needed.

Sincerely,



Michael Morris, P.E.  
Director of Transportation

DD: tmb  
Attachment

cc: R. Michael Eastland, Executive Director, NCTCOG  
Monte Mercer, Deputy Executive Director, NCTCOG  
Dan Kessler, Assistant Director of Transportation, NCTCOG  
Molly Rendon, Director of Administration, NCTCOG  
Ken Kirkpatrick, Counsel for Transportation, NCTCOG  
Dawn Dalrymple, Program Manager, NCTCOG